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NMTC CDEs, Investors, Developers Look Forward to Playing Their Part in the Economic Recovery After the Pandemic

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As the nation begins to reduce shelter-in-place restrictions and reopen businesses, the same question is on everyone's mind: What's next?

While things appear turbulent and unpredictable, community development entities (CDEs) are optimistic about the future of the new markets tax credit (NMTC) and look forward to playing a key role in the rebuilding of the economy. In addition to the pandemic, there are other factors affecting NMTC allocatees and investors.

A Significant Downturn in Pricing

"We already saw a few investors pulling back [before the pandemic] because of internal limitations and market demand," said Laurel Tinsley, chief executive officer for MBS Urban Initiatives CDE. "Some investors had quickly invested and filled their bucket and some had potentially overfilled. A few investors only invest in their primary market and others have had a reduced demand over the last few years and were not investing heavily, but pricing was still in the [80- to 89-cent range]."

"From my perspective, there are four things affecting pricing and yields for NMTC right now," said Jonathan Klaassen, chief executive officer of Rural Development Partners. "Everybody is still waiting to see the pandemic's impact on investor profits, pipeline projects delays and opportunities, the speed and nature of the economic recovery, and the effects of Community Reinvestment Act [CRA] reform."

Toward the end of 2019, NMTC equity prices were in the mid- to high-80 cents-per-credit. Throughout April, tax credit equity pricing was sitting in the lower 70-cents-per-credit.

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Many NMTC investors and lenders are waiting to see the outcome of CRA reform and there are many unknowns about how the nation's economy will recover and how badly banks will be impacted in the long term.

"I think it's too early to predict the full reach of the pandemic on businesses and the communities we serve," said Tinsley. "In the [Great Recession,] you could see the roots of the problem. That doesn't mean it was easily fixable, but we understood what was happening and why. Now, there are more problems than we can even identify and a greater impact to the low-income communities we serve."

One more thing the NMTC has to face this year: A fight for an extension of the credit.

"We've met this challenge before," said Klaassen. "Getting the one-year extension in December 2019 was a big victory. We only got a year, but it was an increase to $5 billion. We'll get it done again in 2020 and have a real opportunity for a longer extension or even permanency, in 2021."

"This is the time when everyone, including investors and CDEs, should be supporting this credit," said Tinsley. "Now is the time to demonstrate demand for and impacts generated from new markets tax credits. If this program goes away, I do not see anything meaningful taking its place. It's really important for filling funding gaps that make investments in low-income communities possible."

Despite the looming uncertainty, CDEs look forward to embracing the challenges and getting to play their part in rebuilding businesses and the economy.

A New Focus

"We have great investors and CDEs and an effective program," said Klaassen. "I have strong confidence that our industry will be part of the solution. We've been revisiting pipeline projects and checking in with investors. We will want to confirm investor support for projects earlier in the process. We won't be taking anything for granted."

How will those projects that receive 2019 tax credits look? What will be the focus for NMTC projects in future rounds? One benefit of the pandemic is that it has highlighted the so-called "essential" businesses that need investment.

"I think there is certainly a high degree of visibility for certain projects right now," said Tinsley. "For example, the food supply chain is getting a lot of visibility. People are realizing that we need food to be accessible, healthy and clean. Food banks are serving the swelling needs from so many Americans currently out of work, plus health care centers where people can seek COVID testing and access life-saving care are receiving a lot of attention as we are all becoming more aware of the struggle to meet these most basic needs."

"From a rural perspective, I've been inspired by the response of food banks," said Klaassen. "The pandemic is highlighting the need for food distribution infrastructure. Additionally, people working from home are realizing the importance of reliable internet access. Supporting workforce development initiatives remains essential to job accessibility, but I also see the growing importance of food security and broadband infrastructure for rural communities."

Even though almost all business and industries are suffering, Tinsley agrees that the pandemic has illuminated certain infrastructure and support industries that need more investment.

"There are industries that are more solvent right now because they are deemed essential," said Tinsley. "But even they are still greatly impacted by the pandemic.

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We've been looking at how we can provide more manufacturing in the U.S., so we've financed several facilities that are maker's spaces and small-batch production. I think the marketplace is now filled with projects that you can see the inherent value of in light of the pandemic and the road that lies ahead."

Then and Now

"It's too early to tell how deep and far-reaching the impacts will be, but everybody is impacted by this in some way already," said Tinsley. "This was like someone turned off the light switch so everyone had to figure out how to work in the dark. The downturn and recession were slower to happen and it was a rolling effect. There were waves as more and more people were impacted, I think you'll see that again here after the initial stimulus dollars are spent, but the need for help is still growing."

"I think the biggest difference is that the 2008-2009 financial crisis largely arose from our own financial choices; whereas, the pandemic is seen to have been imposed upon us from the outside," said Klaassen. "During recovery [from the Great Recession], the regulatory response was to slow down and fix the financial system. Now, the government response to keep this from happening again won't push directly against financial services. The wind will be at our backs, because of the common desire for a quick and sharp recovery. "

It's not clear how badly banks will be effected by the pandemic. Most stakeholders are expecting a delay in the full economic impact to banks because so many people are claiming forbearance and not making mortgage and loan payments.

"A lot of developments in 2009 and 2010 were self-leveraged, because banks weren't making as many loans," said Tinsley. "There were a lot of deals we really wanted to get done during the recession, but couldn't get financing like they would in a more stable economy. I came to work for a community development company so that I could help projects that would be deeply impactful for low-income communities–providing jobs and services–use NMTCs to fill their construction and operating gaps. As an industry, we've really focused on the tough projects: the nonprofits, the small businesses, the companies creating jobs and stability in low-income communities, because those are the ones that are needed the most."

"We have seen historically high investor pricing in recent years and I think something like that takes time to rebuild," said Klaassen. "The high pricing was the fruit of an extended recovery period [from the Great Recession] and from the investor market maturing and getting stronger with the economy. I think it may take time to get back to the highs, but we may still see pricing at or above 80 cents in the coming years. It's too early to tell."

Tinsley and Klaassen agree that there's potential for smaller banks to step up and help with financing because they will want to see certain projects get done in their neighborhood.

"One thing I'm seeing that also happened in the last downturn is smaller investors will start to fill some of the need," said Tinsley. "Smaller banks and nontraditional investors will invest in local projects. They probably won't become national players, but they'll help with financing to make sure the investments happen in their neighborhood. We're definitely going to have to get more creative and help find investors to make sure projects get done."

"I think that the resiliency and nimbleness of the NMTC industry will position us to provide immediate impact to underserved communities," said Klaassen. "I feel thankful to be part of the positive conversation and to focus on keeping the NMTC impact mission ever before us."

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